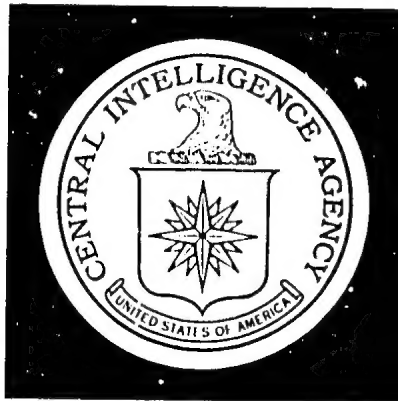


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DIRECTORATE OF
INTELLIGENCE

WEEKLY SUMMARY

Special Report

Ceylon: Trouble Looms

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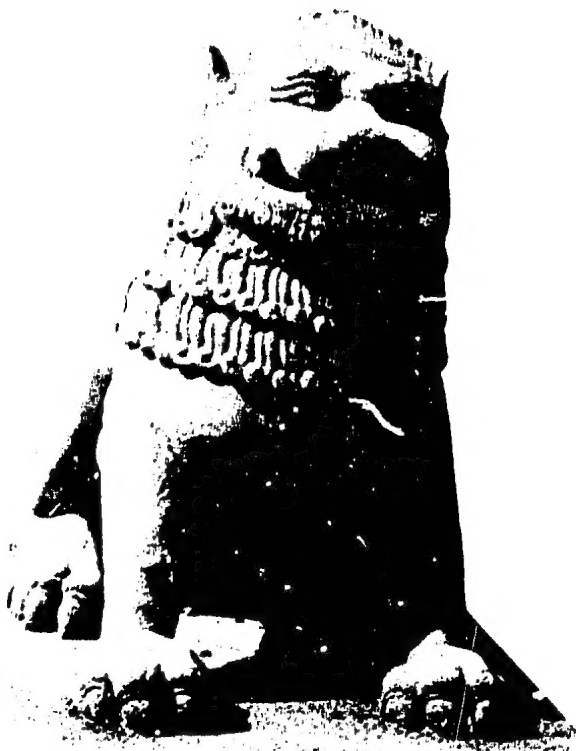
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Ceylon: Trouble Looms

Prime Minister Sirimavo Bandaranaike's coalition government has reached an important stage, vital not only for its own success and unity but possibly also for the continuation of democracy in Ceylon. In its first six months the regime acted primarily to solidify its socialist image, largely through leftist-oriented foreign policy initiatives; the government now must face up to several difficult domestic problems. The initial euphoria in the public's acceptance of the coalition, following its sweeping victory last May over the moderate government of Dudley Senanayake, has started to wane. Mrs. Bandaranaike has not been able to roll back the high cost of living nor to alter the high unemployment rate. Many Ceylonese, whose unrealistic expectations of rapid economic progress were fed by the coalition's rhetoric before and immediately after the

election, could succumb to the propaganda of a potentially dangerous "new left" revolutionary element. Pressure from this or other potential sources could prod Mrs. Bandaranaike into risking ill-advised repressive measures in order to retain control.

A Leftist Turn in Foreign Policy

A strong tide of victory carried Mrs. Bandaranaike's United Left Front—composed of her own nationalist, left-of-center Sri Lanka Freedom Party (SLFP), the Trotskyite Lanka Sama Samaja Party (LSSP), and the Ceylon Communist Party/Moscow (CCP/M)—to power last May. As the defeated United National Party (UNP) and its allies retreated into temporary obscurity, numerous glowing press reports proclaimed that the nation's difficulties would finally be solved.

The new government sustained popular interest during its early days by a series of foreign policy moves designed to heighten its socialist image. Full diplomatic recognition was granted to

East Germany in June, and later to North Korea, North Vietnam, and finally to the Provisional Revolutionary Government of South Vietnam. Ceylon also suspended relations with Israel, gave notice that the US Peace Corps agreement would be terminated in October, and asked the Asia Foundation to leave.

From Mrs. Bandaranaike's point of view, such measures were ideally suited to launch her new government. In addition to creating an impression of rapid, decisive action, they apparently enabled her to fulfill promises made earlier to her coalition allies in return for their electoral support. During the pre-election planning stage as well as throughout most of the campaign, it had seemed that the contest would be close, with

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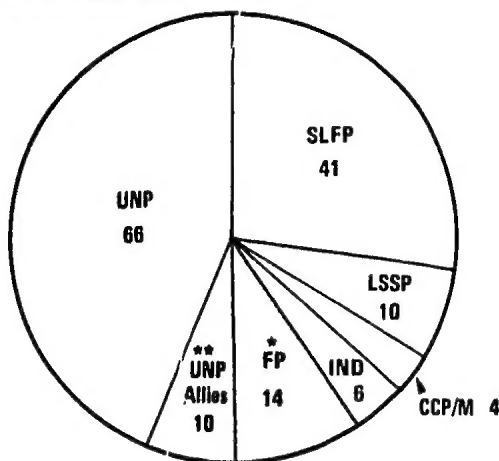
Senanayake's UNP holding a slight lead. Mrs. Bandaranaike presumably calculated that she would need the assistance of the Trotskyites and the Communists and was willing to pay the price. At first analysis, it would appear that the new prime minister, whose own party won 91 of the 151 elective seats in the House of Representatives—the largest majority ever enjoyed by a single party in Ceylon—could have dispensed with her campaign partners, whose combined 25 seats might be considered of marginal value.

Mrs. Bandaranaike, however, evidently concluded that her position was not solid enough to enable her to dismiss her allies. Her own party is not homogeneous, but a miniature coalition embracing a large body of moderates and a strong leftist wing. Mrs. Bandaranaike's previous government had fallen in late 1964 because of party defections, when a number of conservative SLFP representatives bolted the party because of Mrs. Bandaranaike's effort to take over the country's largest independent newspaper chain and because of the growing leftist influence in her govern-

ment. After the 1970 elections she probably reasoned that retention of the SLFP left wing necessitated continued cooperation with the LSSP and the CCP/M. Three members of the LSSP and the



Prime Minister Bandaranaike

Seats Won in House of Representatives
in 1965 and 1970 Elections

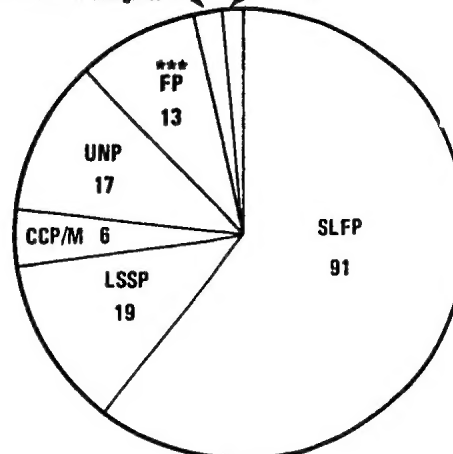
March 1965

* Federal Party was an ally of the UNP until late 1968.

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** Sri Lanka Freedom Socialist Party - 5
(By the 1970 elections, this party had merged into the UNP.)
Tamil Congress - 3
Others - 2

*** Tamil Congress 3



May 1970

151 Elective Seats
(After elections 6 additional members are appointed to represent groups not otherwise represented.)

*** Both Tamil Congress and Federal Party claim to be functioning as "independent" opposition parties

UNP = United National Party
FP = Federal Party
SLFP = Sri Lanka Freedom Party
LSSP = Lanka Sama Samaja Party
CCP/M = Ceylon Communist Party/Moscow
IND = Independent

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secretary general of the CCP/M received cabinet portfolios in the new government, and the foreign policy pledges were quickly redeemed.

The prime minister apparently hoped that Ceylon's chances of obtaining increased aid from Communist sources would be improved by these initiatives and gambled that any adverse reaction



T. B. Ilangaratne

from Western nations would be limited. Her strategy has had some success. Relations with Communist China warmed, and after a hiatus of over four years, a new Chinese ambassador to Ceylon was named in early June. In August, a Chinese technical team arrived in Colombo to resume assistance in the construction of the Bandaranaike Memorial International Conference Hall. This project, a memorial to Mrs. Bandaranaike's husband, who was assassinated in 1959, had been agreed on initially in 1964, but was shelved after the UNP won in 1965.

More substantial Communist aid followed the visits of several Ceylonese delegations to China and North Korea in August and September. Trade Minister T. B. Ilangaratne, probably the most prominent leftist among the SLFP cabinet ministers, obtained an interest-free loan of about

US \$8.9 million, repayable over a 10-year period, to cover the cost of importing 100,000 tons of rice, in addition to the 200,000 tons of rice initially ordered from China for 1970. This constituted the first Chinese credit to Ceylon since 1964. Through that year, Ceylon had received from China a total of about US \$48 million, chiefly for project assistance. In addition to this new loan, China reportedly offered further assistance for the purchase of subsidiary foodstuffs as well as project aid for a survey of Ceylon's resources and the development of its fishing industry. Ilangaratne's delegation then negotiated various trade agreements and protocols on economic cooperation and commodity exchange with North Korea. Ilangaratne, moreover, in late October, led a delegation to Moscow and East Germany and signed various trade and economic agreements.

Meanwhile, Ceylon's traditional Western aid donors appear to have accepted, some of them reluctantly, the nation's leftward turn. West Germany resented the recognition of Pankow and emphasized it by refusing to fulfill 1970 aid pledges and by advising the Ceylonese to work out with German banks credit arrangements for commodities already ordered on commercial terms as a private rather than a government matter. Canada, England, and Japan, however, have signed or are negotiating agreements to fulfill their aid pledges. Australia is implementing its pledge, and France, whose 1969 commitment to Ceylon has not been exhausted, reportedly assured Mrs. Bandaranaike during her September visit to Paris that French aid would continue at previous levels. The US in late September signed a new PL-480 agreement with Ceylon, providing US \$14 million in long-term credit for wheat flour purchase.

In order to assure US good will, Mrs. Bandaranaike took some steps to make her foreign policy moves less unpalatable. She eschewed the harshly anti-US phrasings that typically appeared in Ceylon's foreign policy pronouncements during her previous term in office. Announcements of

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the recognition of Communist regimes appeared a week or so after the effective dates and were published matter-of-factly in the press. Termination of the Peace Corps and Asia Foundation programs was handled by the Ceylonese Government diplomatically and without rancor.

An unexpected irritant developed in August, however, when LSSP leader and Finance Minister N. M. Perera charged publicly that the CIA was backing a so-called "Che Guevarist" revolutionary movement on the island, and the trade minister



N. M. Perera

followed up with two strong attacks on US foreign policies. After several protests by US officials, members of the Ceylonese Government issued new statements apparently intended to retract or at least blunt the allegations. Perera himself, possibly at the urging of Mrs. Bandaranaike, privately expressed regret to the US ambassador, claiming his charges were caused by his misunderstanding of the CIA's role within the US Government.

In her efforts to avoid alienating the US, Mrs. Bandaranaike has been backed if not pushed by Home Minister Felix Bandaranaike, a relative and an influential leader among cabinet moder-

ates. In early August he reportedly headed a small delegation that expressed concern to the prime minister over what they viewed as an excessively leftist bias in Ceylon's foreign policy. This criticism and possibly subsequent advice from Felix Bandaranaike—probably the only friend at court the US has in Ceylon—may have had some impact. At the recent nonaligned conference in Lusaka, Mrs. Bandaranaike held herself to a relatively moderate role, refraining, for example, from a move for seating a Sihanouk delegation. Furthermore, the new Ceylonese ambassador to the US has made considerable effort to explain his government's actions as being prompted by pragmatic political and economic motives and has hinted that the worst—from Washington's point of view—is over. If Ceylon's foreign policy does indeed assume a more even keel, pragmatic considerations of a different order will have been involved—the Ceylonese Government's recognition of its pressing need for continued US economic aid.

The New Government and the Domestic Scene

This continued need for foreign aid reflects the troubles brewing domestically. For over a decade the economy has been faltering, with unemployment high, the cost of living rising, and foreign exchange reserves dwindling. Mrs. Bandaranaike, whose policies during her prior administration aggravated the slump, aroused expectations during the campaign that her coalition would be able to put the economy on an upward curve and provide jobs for all.

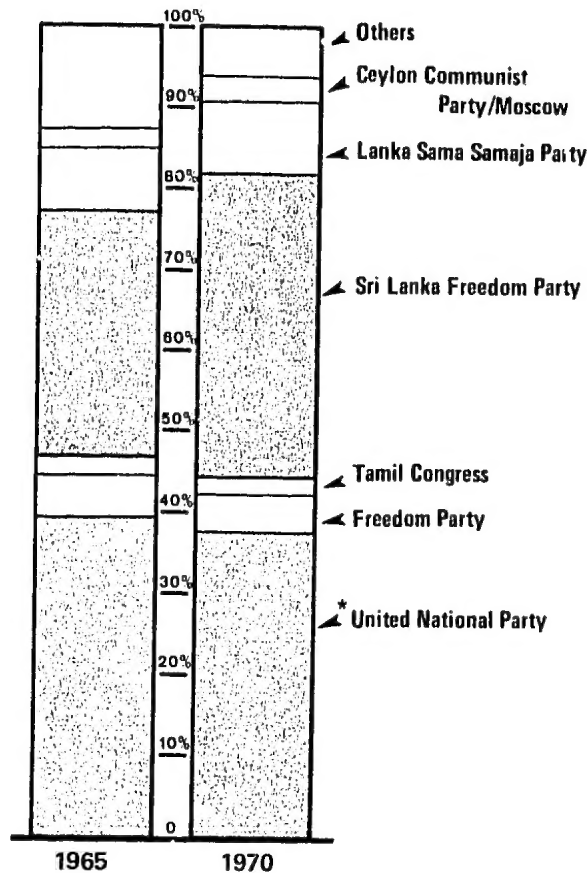
Some warnings, however, were voiced early after the election in order to counter the initial enthusiasm. In early June, the finance minister announced that the nation was near bankruptcy, predictably laying the blame on the previous UNP government. A "save the nation" drive materialized, and for several weeks the press carried a steady diet of pictures of individuals handing government officials checks representing part of their earnings or collections taken up to meet the emergency. This campaign, however, served more as a

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Percentage of Popular Votes in
1965 and 1970 Elections



*Despite only a slight decline in its popular vote between 1965 and 1970, the United National Party's strength in the House of Representatives dropped considerably (see other chart) because of an electoral system weighed heavily in favor of the rural areas, which the Sri Lanka Freedom Party and its allies captured.

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temporary morale booster than an effective means of staving off economic disaster.

Other actions helped to divert popular attention from the harsh financial outlook. Plans are under way to change the local government system. In late July, the House of Representatives passed a resolution empowering itself to act as a constituent assembly to draft a new constitution. Although this implemented another campaign promise, the widely publicized opening of the constituent assembly served also as a temporary diversion while the government searched for a way out of the deepening economic problems.

Occasional press stories have divulged alleged details of the new constitution, possibly for the purpose of buoying up sagging public interest or serving as trial balloons for controversial issues, but complete details are not yet available. The new document will evidently make Ceylon a republic and establish a unicameral legislature. Mrs. Bandaranaike has indicated that there has been no final decision regarding Ceylon's continued membership in the Commonwealth. There is strong sentiment among some left-wing government leaders for leaving, but other strong economic reasons for remaining.

Ceylon's senate is still dominated by the opposition UNP because of a staggered senate election process. It is normally a rubber stamp for the house, but in August it sounded its own death knell when it vetoed a poorly written house constitutional amendment designed to save a cousin of the prime minister from being disqualified from his seat. Inasmuch as work on the new constitution has apparently bogged down, the house passed a bill in late October to abolish the senate, but this will evidently be defeated by the senate, thereby preventing the bill from becoming law for six months. The new constitution reportedly will specify a six-year term for the national assembly, in effect giving the present house as well as the Bandaranaike government the possibility of almost seven years in office.

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Workers loosening soil in rice paddies

The one government measure that initially was most appealing to the people was the implementation on 26 September of the coalition's promise to double the weekly rice ration. Under the new system each ration card holder (most of the island's 12.5 million people) will receive one two-pound "measure" of rice per week free, as during the Senanayake administration and an additional measure for which he must pay about US \$0.12. To operate the new ration program, the government has had to increase rice imports. In addition to the extra 100,000 tons from China,

Ceylon has obtained about 140,000 tons over its earlier purchases for 1970 from Burma, plus 10,000 tons from Pakistan.

To provide for the expanded rice ration, the government will also have to buy up a considerably larger portion of the domestic crop than it has been. The government will become the sole buyer of unmilled rice in March 1971 and, in preparation, has launched a crash program to increase its milling and storage facilities. Legislation will reportedly be introduced, whereby private truck and tractor owners would be compelled to lend their equipment 30 days each year—for which they supposedly will be paid a reasonable compensation—in an effort to lower production costs for small farmers. A large number of rice mills will also be taken over by the government to enable it to enlarge the capacity of its processing facilities.

So far it is uncertain how well the government will succeed in filling the double rice ration over a sustained period of time without adding seriously to the strains of an already overburdened economy. The situation may be alleviated somewhat by the world rice surplus, which could allow Ceylon to arrange favorable credit terms to ease its balance of payments. A hint of governmental awareness that even the present system could be too heavy a financial drain on the government's budget came in mid-October when Trade Minister Ilangaratne appealed to the Ceylonese to surrender their rice coupons or to refrain from buying their full ration of four pounds a week "as an act of benevolence to future generations." Many Ceylonese are indeed not buying the second measure, but not from altruistic motivation. They had expected a return to the system in effect during Mrs. Bandaranaike's former administration, whereby two measures of rice were sold for about US \$0.04 each. The quality of rice supplied under the present double ration is apparently poor, and the Ceylonese prefer to buy a better quality at a higher price on the market. The initial public enthusiasm for the new ration has lessened.

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The government will probably be reluctant, however, to do away with the new rice ration although it may alter it somehow, because it has little else to show for nearly half a year in office. It is unlikely that the average Ceylonese is excited over the prospects of a new constitution, and even when it is promulgated and a republic proclaimed, Mrs. Bandaranaike can expect only limited political benefit.

The Deepening Economic Crisis

Ceylon has had chronic trade deficits. For over a decade the prices of Ceylon's principal exports—tea, rubber, and coconut—have been falling, while the prices of its imports have been rising. In 1969, for example, prices on the London market for tea, the nation's largest exchange earner, dropped 10 percent and Ceylon's trade deficit increased sharply from US \$61 million in 1968 to about US \$113 million in 1969.

In an effort to reduce the trade deficit, the Bandaranaike government has enacted a new restrictive licensing procedure that has sharply reduced imports of both consumer goods and goods needed for industrial production. As a result, prices of consumer goods on the domestic market have risen markedly. The government's Consumers' Price Index has shown a dramatic rise from 114.8 in 1967 to 130.5 at the end of 1969 and to 138.7 in September (1952=100). The Bandaranaike government has already put several items under price controls, and Trade Minister Ilangaratne recently announced that at the beginning of 1971 all consumer goods would fall under such controls.

A lack of supplies has caused factories to reduce production, intensifying Ceylon's high unemployment problem. Over 12 percent of the labor force is unemployed. Among them are at least 10,000 university graduates, unable to find suitable jobs and prevented from doing physical labor because of the stratification of Ceylonese society. Presumably most of the unemployed

voted for Mrs. Bandaranaike's coalition last May and looked to her government to provide jobs.

The government is aware of the magnitude of its problems, and it appears equally aware of the growing discontent. Mrs. Bandaranaike has appealed for patience and time, and other officials have protested against charges that nothing is being done, pointing usually to the convening of the constituent assembly and to the increased rice ration as proof that the government is moving forward. That there is little else to point to is not entirely the fault of the present administration. Ceylon's economy is fundamentally agricultural. The prime minister reportedly has told some foreign diplomats that she has no intention of nationalizing the large foreign-owned tea estates, although it is probable that she may try to exert more government control over this important segment of the economy. There is more room for government management in the export trade, but the import of most essential commodities is already a state monopoly. Although the coalition had promised during the campaign to nationalize the banking system (only a handful of foreign-owned banks would be affected because most banks were nationalized in Mrs. Bandaranaike's former term),

In late October Finance Minister Perera introduced a bill in parliament that would enable the government to take over any business employing more than 100 workers. Defending the bill against sharp reaction from Ceylonese businessmen, government officials have stated that the bill's powers would be used only in extreme cases to eliminate uneconomical industrial enterprises and to help the government deal with businesses that refuse to comply with government policy. Whatever the bill's outcome, the private sector's apprehension over government intentions is likely to have an adverse effect on industrial production. If passed, the bill could be used by Marxist elements in the government as a means for rapid nationalization of some industries.

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The new budget, announced at the end of October and billed as a step toward completing the socialist transformation of the economy, contains some austere measures. A "one-shot" capital levy on individual wealth above US \$33,000 is called for. Persons with an annual income over US \$1,000 must deposit a portion of their income, ranging from 2 to 20 percent, with the government at 5 percent interest, and companies must deposit a flat percentage of their income. Although such measures may appeal to the less



Ceylonese trying to exchange old 50 and 100 rupee notes after announcement of demonitization.

affluent Ceylonese and provide some additional source of government revenue, they will probably discourage investment and further slow the economy. Even people with lower incomes may be hit by increased excise taxes and by a demonetization plan for 50- and 100-rupee notes. By this plan, individuals who have hoarded such notes—and most probably avoided paying taxes on them—may exchange 100 rupees of the old notes for new ones. The excess is to be deposited for at least a brief period in banks, enabling the government to tax previously hoarded sums which had escaped scrutiny.

Political Problems Within and Without the Coalition

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Mrs. Bandaranaike faces more than economic problems. The three-party coalition is potentially explosive. The partners are united more by expediency than by ideology, and strains are already apparent. One area of friction is the trade union field where LSSP organizations have attempted to increase their strength, provoking her own SLFP to take countermeasures. One SLFP union has campaigned openly against an LSSP union leader who was appointed chairman of the Ceylon Transport Board. The CCP/M is also at odds with its coalition partners.

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LSSP President Perera is not a true Marxist and that the government has done nothing to ease the economic crisis and bring about economic nationalization. Other Communist leaders have taken up these themes and have told the party faithful to prepare for a campaign to take over the estates, banks, and the nation's largest independent newspaper chain. Keuneman, apparently miffed when some cabinet ministers recently opposed his proposal to bring all housing under rent control, warned Mrs. Bandaranaike that he would resign unless he were

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P. Keuneman

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given a free hand. In late August Mrs. Bandaranaike found it necessary to issue a public appeal for unity. As long as both the LSSP and the CCP/M continue to need the SLFP more than Mrs. Bandaranaike's party needs them, however, the two junior partners will probably take care not to break up the coalition.

In addition to preserving unity, Mrs. Bandaranaike faces the problem of maintaining her own leadership. In the early days of her administration she took steps further to strengthen her control. Supervision of the public service was transferred from the Ministry of Finance, under the care of LSSP leader Perera, to the Home Affairs Ministry, headed by Felix Bandaranaike. Presumably this would make it more difficult for the LSSP to infiltrate effectively into the government apparatus. Two other LSSP leaders were given posts—those dealing with transportation and the plantation industries—that could bring them into direct conflict with some of the powerful trade unions controlled by their party. With the LSSP leaders hopefully given enough to keep them either in hot water or out of mischief and with the smaller CCP/M probably viewed as less of a threat, Mrs. Bandaranaike may have believed that she had effectively forestalled immediate challenges to her leadership. Although there has been the usual postelection changeover among police, military, and public service personnel, there is no firm evidence that enough members of the far left have attained positions of sufficient importance to enable them to exert a disproportionate influence over policy.

Although there may be no direct challenges in the near future, Mrs. Bandaranaike eventually may feel compelled to adopt more radical policies in order to protect her position. Her continued failure to alleviate Ceylon's problems could lead or stimulate the left wing of the SLFP to join with the LSSP and the Communists in demanding more radical moves. Mrs. Bandaranaike is also aware of a developing "new left" revolutionary element, composed of a number of apparently disunited organizations whose members are edu-

cated unemployed youths and whose leaders are generally former members of either the pro-Moscow or pro-Peking Communist parties. The government is clearly concerned, and a special police unit has been assigned to monitor the new left groups. Several arrests have been made, but usually the police have been able to prove little. Unusual care is being taken to guard arms and munitions of the armed forces and to prevent weapons being smuggled into the country. At present the new revolutionary groups do not seem to constitute a serious threat, but they could become so, particularly if popular discontent grows.

Another potential source of agitation is the island's large (about 22 percent) Tamil minority, divided almost equally between the "Ceylon Tamils," whose ancestors have lived on the island for generations and who have full voting rights,

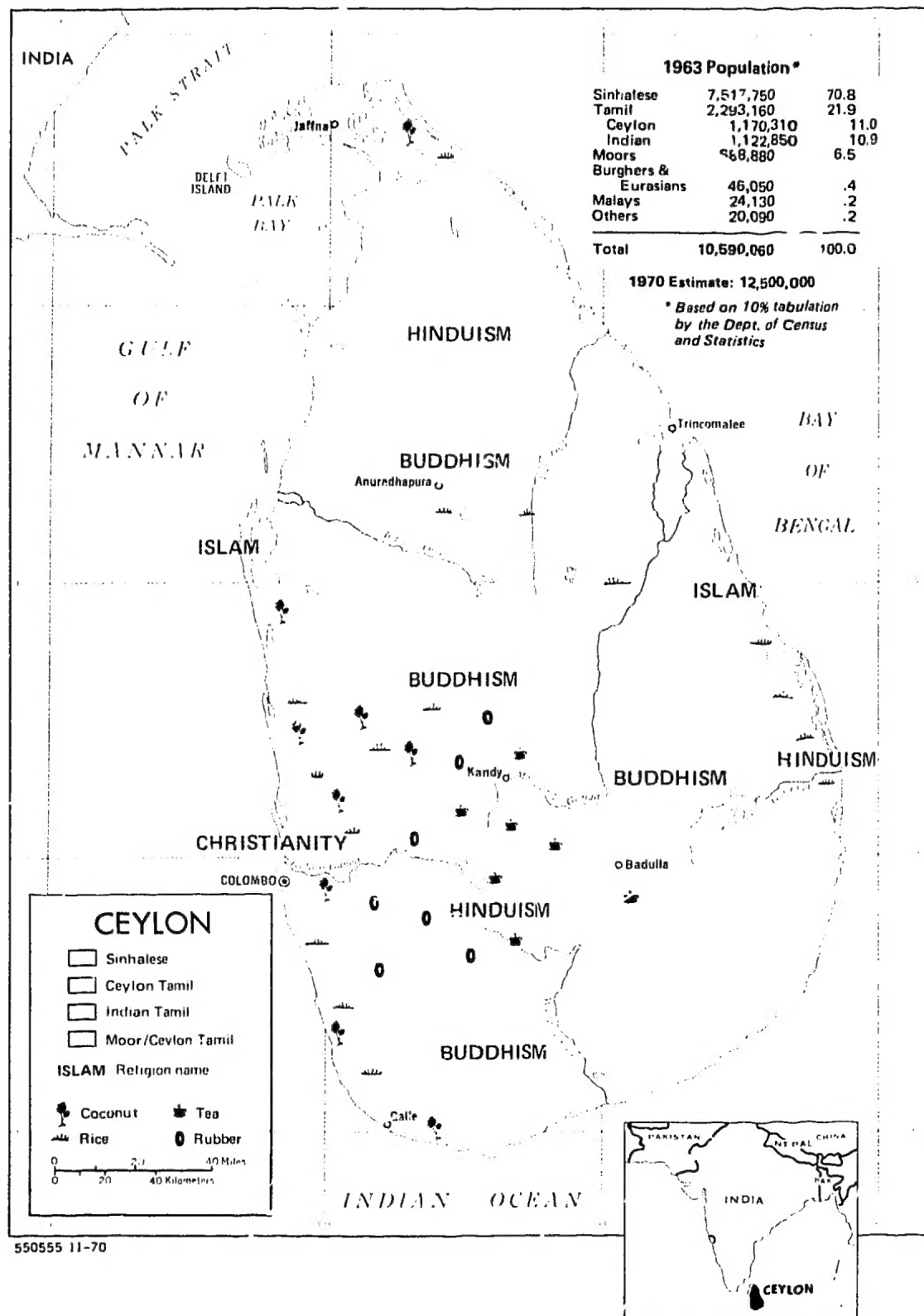


Indian Tamils Sorting Tea

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and the mostly disenfranchised "Indian Tamils," whose forebears were brought over from southern India in the second half of the 19th century to work on plantations. The Tamils remember that the earlier Bandaranaike administrations fanned existing anti-Tamil sentiment among the majority Sinhalese, causing occasional violence. The Ceylonese Tamils might begin agitating should the new constitution appear to discriminate against them, and the Indian Tamils, the work force for the important plantation industries, could cripple the economy should they launch a strike.

From whatever direction, there is a clear possibility of serious trouble for the new government. The people appear tired of slogans and impatient for tangible economic progress. There is a notable, relatively moderate element within the government, and Mrs. Bandaranaike herself is probably not a radical leftist. The possibility of strong leftist pressure from within or without the government, however, might prompt her to advocate more extreme solutions. Increased government control could lead eventually to creation of a more authoritarian form of government.

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